University of Victoria
Long Term Disability Plan for Faculty and
Administrative and Academic Professional Staff

ANNUAL REPORT

YEAR ENDED MARCH 31, 2014

LONG TERM DISABILITY PLAN – 2014 ANNUAL REPORT

Contents

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Letter from the Chair

The Trustees are pleased to provide this annual report to the members of the Long Term Disability Plan for faculty and administrative and academic professional staff of the University of Victoria.

The report provides an overview and update of the Plan for the year ended March 31, 2014.

Financial Highlights

The Trust's financial position improved marginally over the year with plan assets available for benefits growing to $10.1 million, up from $9.0 million over the previous year. Liabilities also increased by a similar amount to $14.1 million, up from $13.1 million, resulting in an unfunded liability of $4.0 million (2013-$4.0 million). While the change to the unfunded liability was negligible, the funded ratio improved to 72% (2013-69%).

Operating Highlights

A Plan Funding Policy was approved by the University in June 2013 and consequently the contribution rate outlined in the 2011 actuarial valuation, consistent with a 10 year amortization of the unfunded liability, was implemented on July 1, 2013.

Over the year, the Trustees reviewed the Plan's investments and upon advice from its investment manager, Philips Hager and North, decided to transition investments held in the PH&N Bond Fund to the PH&N Core Plus Bond Fund.

Looking Ahead

The Plan's next actuarial valuation as at July 1, 2014 is currently underway and results are expected later in the fall.

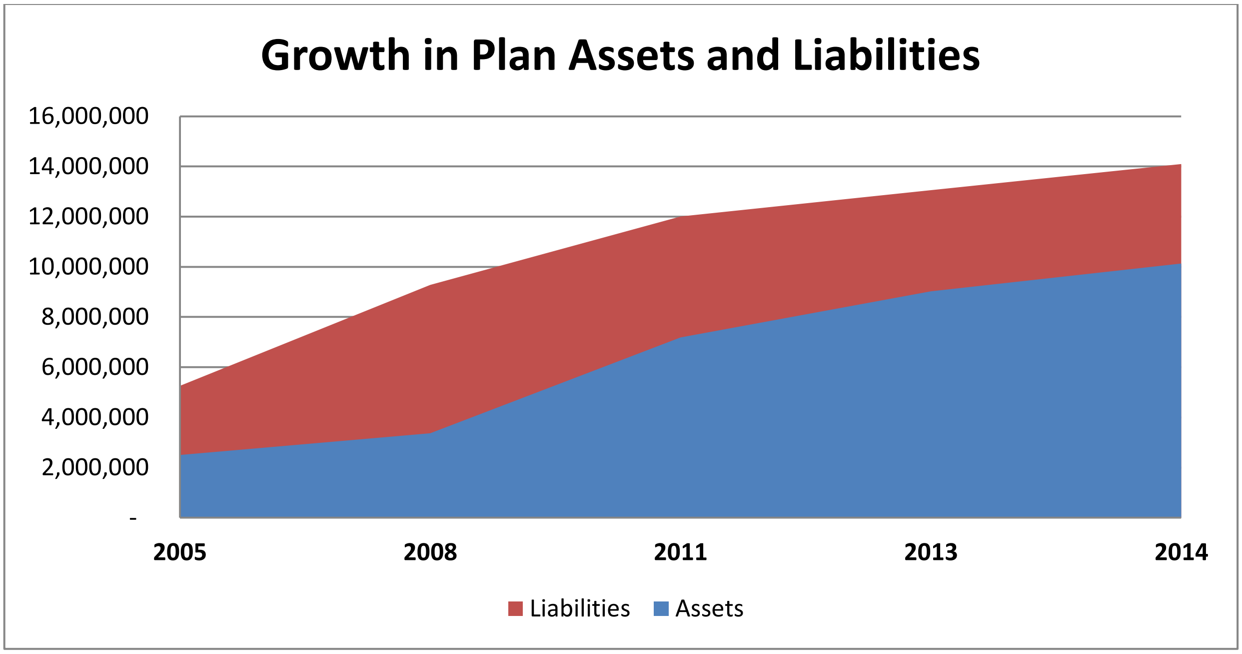
Murray Griffith
Chair, Trustees of the UVic LTD Trust
November 7, 2014

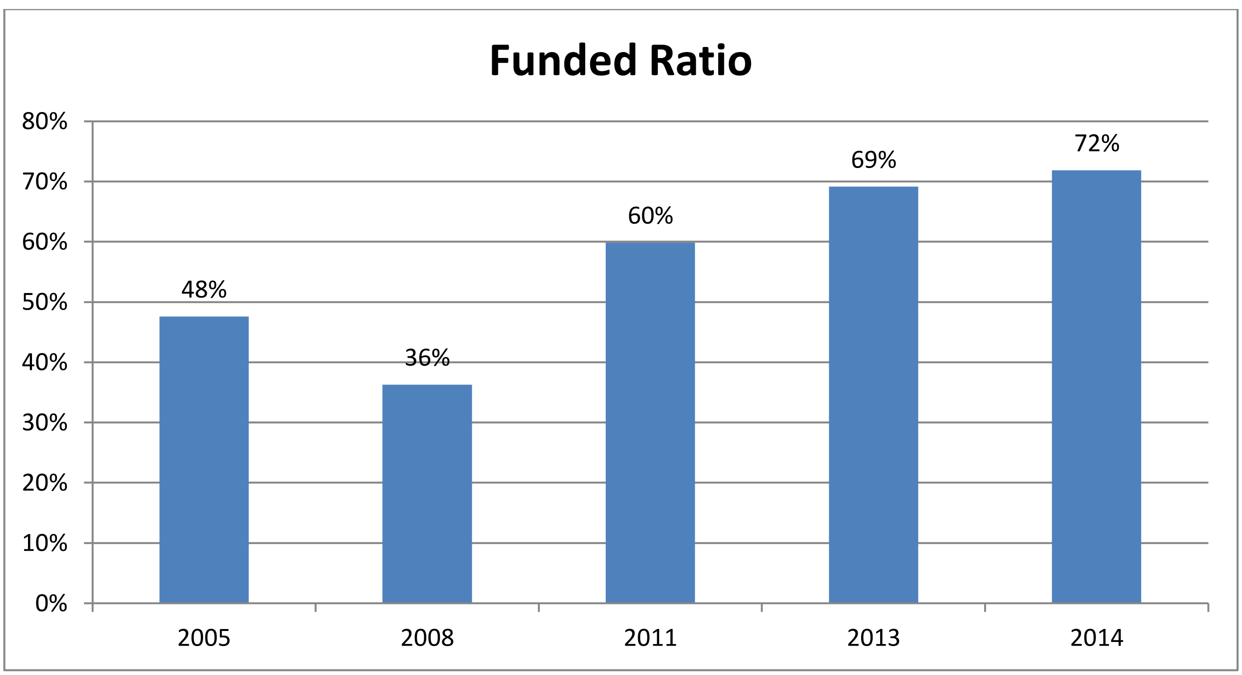
Governance and Service Providers

Trustees Appointed by the University Board of Governors	Murray Griffith – Chair Executive Director, Financial Services Mary Ellen Purkis Dean, Human and Social Development Kane Kilbey Associate Vice President Human Resources Laura Cowen Faculty Member, Mathematics and Statistics Catherine Franz Occupational Health & Safety Consultant
Secretary	Teresa Rush Administrative Assistant, Financial Services
Investment Manager	Phillips, Hager & North Investment Management Ltd - Vancouver
Custodial Services	RBC Investors Services Limited – Vancouver
Actuarial Services	Mercer (Canada) Limited – Vancouver
Auditor	Grant Thornton LLP – Victoria

Financial information at a glance:

	March 2014	March 2013	March 2012
Number of plan members	1,595	1,616	1,627
Number of members receiving benefits	40	41	42
Total amount of benefits paid	1,895,773	1,936,679	1,697,749
Member contributions	3,040,684	2,751,386	2,723,601
Market Value of Investments	9,702,879	8,592,150	7,598,194
Gross investment income	153,334	369,727	624,664
One-Year investment return	1.51%	4.66%	9.26%
Operating expenses	105,090	133,707	143,647
Net assets available for benefits	10,132,260	9,025,344	8,069,428
Liabilities for future benefits	14,097,159	13,056,159	12,728,159
Funded ratio	72%	69%	63%


Growth in Plan Assets and Liabilities
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
2005
2008
2011
2013
2014
Liabilities
Assets


Funded Ratio
80%
70%
60%
50%
40%
30%
20%
10%
0%
48%
36%
60%
69%
72%
2005
2008
2011
2013
2014

Introduction

The LTD Trust was established in 2007 to manage the self-insured, employee-pay-all Long Term disability plan for Faculty and Administrative and Academic professional Staff of the University of Victoria (“the Plan”).

The purpose of the Plan is to provide long term disability benefits to faculty, administrative and academic professional staff (“Qualified Employees”) of the University who are enrolled and paying contributions within the Plan.

The Trustees

The Trustees have responsibility for the administration and overall management of the Plan as outlined in the Trust Agreement between the University and the Trust. The Board of Trustees currently consists of five members.

The duties and powers of the Trustees include:

- Maintaining an adequate reserve for the payment of future reimbursement sums to the benefit carrier, and for future administration expenses reasonably anticipated as likely to be incurred;
- Ensuring, at intervals to be agreed with the University, that actuarial valuations are undertaken;
- Determining the contribution rate, as guided by the Funding Policy and in light of the latest actuarial valuation, and informing the Board of Governors of the rate;
- Receiving from the University all LTD deductions from Qualified Employees’ salaries;
- Authorize and direct monthly payment to the benefit carrier for the cost of LTD claims;
- Investing and re-investing Trust fund monies remaining after reimbursement of the benefit carrier, otherwise known as reserve monies;
- Retaining such investment, legal, actuarial or other expertise or assistance as considered necessary or appropriate.

Benefits

Long term disability benefits are calculated at 80% of monthly “net earnings” plus the amount required to maintain employee and University Pension Plan contributions. LTD benefits payable from the Plan are reduced by the amounts of any disability benefits payable from any University or government plan providing salary continuance or disability income paid during the disability period covered by this Plan. As the Plan is 100% funded by Qualified Employees, the benefits received are not taxable.

The definition of disability in the Plan Document is: “Means an employee who is wholly and continuously disabled due to sickness or injury and as a result is unable to perform the duties of his or her normal occupation or the duties of any occupation for which he or she is fitted by education, training or experience.” However, the long standing practice of the Plan is that claims are adjudicated only on a Qualified Employee’s “own occupation”, and there are no plans to change this practice for the foreseeable future.

Benefits are not paid to a Qualified Employee until the employee has been totally disabled for six months.

Benefits are indexed to the lower of:

- the annual increase in the Canada Consumer Price Index (“C.P.I.”); and
- the most recent annual across-the-board general salary adjustment granted to faculty or administrative and academic professional staff, as applicable.

Benefit payments from this Plan continue until the earliest of the following:

- the Qualified Employee is no longer considered to be “totally disabled;
- the Qualified Employee’s death;
- the Qualified Employee’s normal retirement, meaning June 30 coinciding with or following the Qualified Employee’s 65th birthday.

Contributions

The Plan is funded solely by contributions from Qualified Employees. Contribution rates are adjusted periodically to reflect the anticipated cost of new disabilities, the financial condition of the Plan, and the ongoing administration costs of the Plan. The contribution rate is currently 2.09% of gross salary.

Historically, the Plan's contribution rate has been as follows:

Effective Date	Contribution Rate
July 1, 2013	2.09%
January 1, 2009	1.93%
July 1, 2008	1.75%
July 1, 2007	1.54%
July 1, 2006	1.24%

Funding Policy

In June 2013, the University approved a Funding policy for the Plan which outlines key parameters the Trustees would follow in funding the plan.

In funding the Plan, the Trustees would ideally wish to accomplish four basic objectives:

1. Provide a high degree of certainty that the promised benefits will ultimately be delivered;
2. Contribution rates should be affordable for plan members;
3. The contribution rate as a percentage of salary should be stable and consistent over time;
4. The contribution rate should provide for intergenerational equity.

These basic objectives can be in conflict from time to time. The challenge facing the Trustees, therefore, is to operate the LTD Plan in a manner that provides a reasonable balance among these objectives.

The long term cost of the LTD Plan is influenced significantly by the number of members in receipt of benefits, the termination and recovery of disabled lives, the incidence of new disabilities, and the investment policy (and associated returns).

Benefit security is influenced significantly by the overall level of funding achieved by the LTD Plan, resulting from member contributions, the funding policy, the investment strategy employed by the Trustees and changes in plan liabilities. The contribution rate is influenced by:

- the recent plan experience related to termination and recovery of disabled lives;
- the recent plan experience related to incidence of disability;
- changes to government programs, such as Canada Pension Plan;
- demographic changes in the active membership;
- the overall funding target adopted by the Trustees;
- short to mid-term investment performance;
- the market value of assets; and
- the contribution setting methods used by the Trustees upon advice from the actuary.

Key funding parameters include:

- Liabilities will be valued on a going concern basis with an actuarial valuation every 3 years
- The target funding level for the plan is 100% of actuarial liabilities
- A deficit funded position exists when Plan assets are below 90% of actuarial liabilities
- Deficits (or unfunded liabilities) will be amortized over 10 years
- A surplus funded position exists when Plan assets exceed 110% of actuarial liabilities

Investments

The Trustees have developed a Statement of Investment Objectives and Guidelines ("the Investment Policy") for the Plan. It is reviewed by the Trustees on an annual basis.

The purpose of the Investment Policy is to provide a framework for investment of the funds to achieve a return objective within levels of risk acceptable to the Trustees.

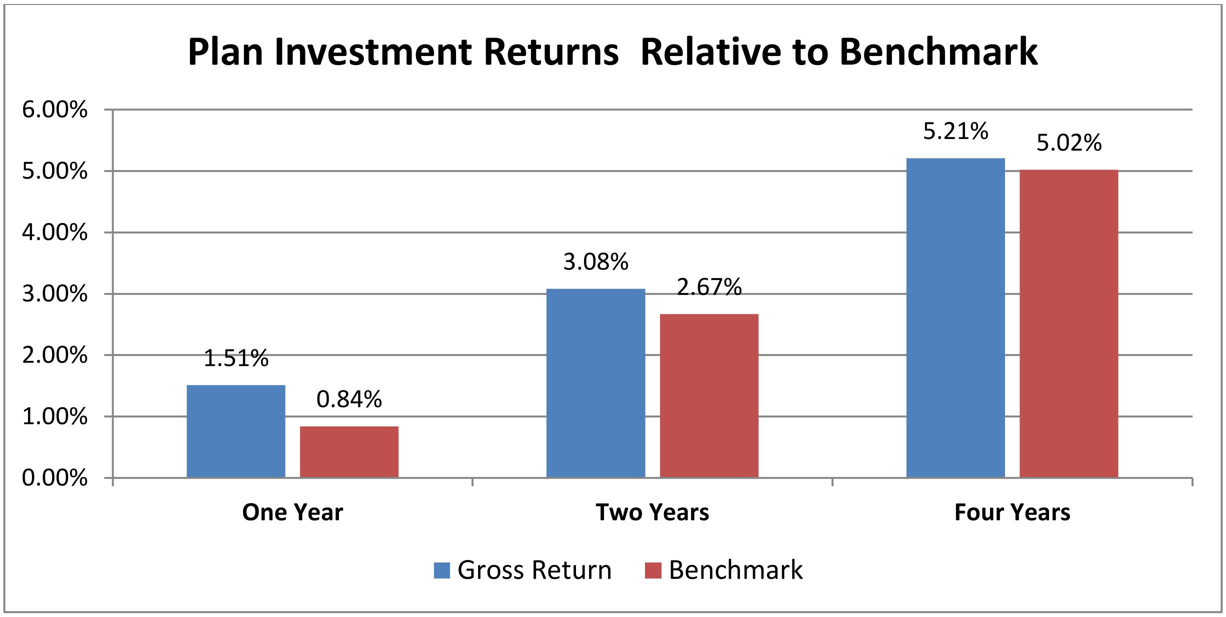
Given the purpose of the Plan, the Trustees have adopted an investment framework that emphasizes a Liability Driven Investment ("LDI") approach while meeting the general investment objectives of preserving capital in real terms and generating sufficient annual cash flow to meet expenditure requirements.

An LDI approach takes into consideration both assets and liabilities on a plan's balance sheet and shifts investment goals away from asset benchmarks and the relationships among asset classes that have no direct relationship to the liabilities. Instead, LDI focuses on managing the funded status of the plan (Assets/Liabilities).

The goal of a LDI strategy is to match the interest rate sensitivity of the assets to the interest rate sensitivity of the liabilities. This immunizes the Plan and its funded status from interest rate risk as asset movements will be highly correlated with movements in liabilities.

The assets of the Plan were 100% invested in the Phillips Hager & North (PH&N) Bond Fund and the RBC Institutional Cash Fund during the year ended March 31, 2014.

The PH&N Bond Fund is benchmarked against the FTSE TMX Universe Bond Index and continued to add value relative to its benchmark in each of the one, two and four year time periods as below. As indicated on page 3, yearly investment returns can vary but the trustees remain focused on sustainable long term returns. While the one year return was less than 2% in 2013/14 due to the continued downward trend of interest rates over the last 4 years, the 4 year return of the fund exceeded 5%. Given the current low level of interest rates it would be very unlikely for the fund to return 5% over the next 4 years.



During the year, the Trustees reviewed the Plan's investments and upon advice from its investment manager, Philips Hager and North, decided to transition investments held in the PH&N Bond Fund to the PH&N Core Plus Bond Fund. The Core Plus Bond Fund utilizes several yield-enhancing strategies, which serve to augment and diversify universe bond holdings. It is also consistent with the Plan's LDI strategy. The transition occurred on April 1, 2014.

Administration

Claims adjudication and benefit payment services are contracted under an Administrative Services Only (ASO) agreement to British Columbia Life & Casualty Company. Membership and general administration, including the collection of member contributions, is undertaken by the University. BC Life's expenses and other administration costs are funded by the contributions to the Plan.

The Trustees have engaged Mercer Canada Limited to provide actuarial services to the Plan. In addition to a year-end estimate of Plan liabilities done each March 31 for financial reporting purposes, Mercers provides a full actuarial valuation every three years. The last valuation was done as of July 1, 2011 and the next full valuation is scheduled for July 1, 2014.

Financial Statements

The Plan's financial statements are prepared by the Accounting Office of the University of Victoria and audited by the accounting firm of Grant Thornton LLP. The financial statements for the year ended March 31, 2014 can be viewed at the following link:

http://www.uvic.ca/vpfo/accounting/assets/docs/leadership/LTD-financial-statements.pdf

Contact Information

Plan enquiries can be directed to any of the Trustees as follows:

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Mary Ellen Purkis	250-721-8050
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